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SAVINGS BANKS AND THE DEVELOPMENT OF SMALL-SCALE ENTERPRISES (SSEs): THE SADCC REGION

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INTRODUCTION

1. Small-scale enterprises (SSEs) are not confined to specific locations. They are found in urban, pari-urban and rural areas. Interpretation of the term "small-scale enterprises" is at times confused with or thought to be synonymous with "small-scale industries". The two are not mutually exclusive since both derive from a combination of similar variables like the size of labour force, source or type and magnitude of capital employed. However it should be pointed out small-scale industries can be a subject of small-scale enterprises. We shall assume in this particular case therefore notwithstanding definitions used by others like the International Labour Organization 1/ that "small-scale enterprises" are where the operational management tends to be in the hands of one or two but less than five persons. In other words, they are an establishment where one or two people constitute the principal owners and also make all important decisions.

2. There is no incompatibility between mobilization of resources by Savings Banks (SBs) and support to Small-Scale Enterprises (SSEs) since even Post Office Savings Banks that mainly receive deposits could be made to extend credit. Both are Africa's overall solutions to facilitating balanced economic growth and development. It is difficult, but unavoidable, to generalize in dealing with issues of savings banks in support of small-scale enterprises. Somehow also, the diversity of the economies of the countries of the Southern African Development Coordination Conference (SADCC) adds on to this complexity but it does not eliminate the commonalities of problems these countries face in dealing with the industrialization process.

3. This is an enormous task and "it would be naive to assume that all this will come without effort (given continued Africa's structural problems) both at global and national levels 2/. Finding resolutions to these problems is an overriding preoccupation for Africa in the 1990s and beyond. There are several constraining factors to achieving the desired goals of sustaining SSEs in the SADCC region. What has been so acute was to pay

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1/ Most definitions are governed by the interests of the perceiver, the purpose of the definition, and the stage of development of the particular environment in which employed. A study of small enterprises, Engineering Experiment Station, Georgia Institute of Technology, Atlanta, Georgia, USA, 1975 identified more than 50 different definitions in 75 countries by the Industrial Development Division.

2/ See United Nations Economic Commission for Africa, Issues Before the Conference: Executive Summary, E/ECA/CM.18/Summary.

insufficient attention to planning and neglect mobilizing domestic factor inputs 3/. Another major observed omission was failure to recognize the role of Savings Banks in a region where capital formation is still a major constraint.

4. In this paper, the experiences outside the SADCC area are highlighted in order to draw lessons for the future and entice savings banks to shake off "the business as usual mentality". In particular the later's attitude of dealing with clients with little enthusiasm to get them to increase their patronage, let alone the failure to offer better and more attractive incentives need addressing with a view to improving prospects for small-scale enterprises.

5. The paper is divided in four parts in addition to a brief introduction. Part One focuses attention on the evolution of SSEs and the extent to which they may have benefitted from the intermediation of savings banks as national financial institutions. Part Two focuses on areas of concentration by savings banks. It includes influences brought to bear on the SADCC countries through pursuing indigenization policies. It also reviews the emergence of indigenous credits and lending systems in both urban and rural areas. Attention in Part Three is on domestic resource mobilization, including surpluses generated by activities of SSEs themselves and how Savings Banks could become more effective in reinvesting those resources. The Fourth or concluding Chapter, spotlights measures aimed at strengthening future actions with a view to enhancing the contribution of savings banks in sustaining small-scale enterprises.

PART I: GENERAL BACKGROUND

(a) Evolution and Development of Small-scale Enterprises (SSEs)

6. Formulation of an explicit strategy in regard to SSEs is an important economic development tool. Many African countries in the aftermath of colonial rule opted for large-scale enterprises similar to what they had observed in the developed countries. They undertook this course of action without much thought to local market needs. In the course of these developments it emerged that different policies had to be adopted focusing on the need to nurture small-scale enterprises if they were to contribute commensurately to the economic process. The experience of the countries of the Southern African Development Coordination

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3/ United Nations Economic Commission for Africa, Basic Principles and Practices in Industrial Policy Formulation and Plan Preparation in the Eastern and Southern African Subregion, doc. E/ECA/IHSD/POL/20/91.

Conference (SADCC) as we shall soon show, is not much different from the rest of Africa. Much sooner than later, these countries realized that most industries in their midst were not owned or run by national citizens, except for the parastatals and those put in place through mechanisms intended to support the emergence of small-scale enterprises to be specifically owned and run by national entrepreneurs.

7. Small-scale enterprises in the formal sector to a large extent, owe for their existence on funds provided through formal financial institutions. Those in the formal sector invariably tend to be registered and to operate from established premises. A few among them may have grown out of the informal sector but are rather the exception than the rule. However, they remain SSEs by virtue of not having grown big enough to qualify for large-scale enterprise status. A few among them are reluctant to become large-scale for a variety of reasons. Those in the informal sector on the other hand, prefer remaining unregistered and rarely depend for their capital on the formal financial institutions. This apart, both pursue similar activities be they in the urban or rural and formal or informal sectors. These activities range from carpentry and furniture-making, masonry, blacksmithry, leather tanning, basketry, repair of blocked sewage pipes, block making, electrical fittings, electrical repairing, "jua-kali" or mango-tree motor mechanics and panel beaters, tailoring and tie and dye manufacturers, grocery shops etc.

8. Even on the basis of this rather incomplete synoptic description, it is possible to be categoric that SSEs perform an important function in the respective economies. Study after study conclusively indicates how these enterprises satisfy a fairly sizeable share of the needs of a majority of low income households 4/. Small-scale enterprises also provide alternative employment opportunities. Hence for countries at the initial stages of industrial development, as is the case in the SADCC region, small-scale enterprises have several advantages. They could if properly nurtured:

(i) provide a technological base for growth;

(ii) stimulate indigenous entrepreneurship;

(iii) mobilize local capital;

4/ Friedrich-Ebert Foundation, Development of Small-scale Industries in Uganda: Challenges and Responsibilities (Vol. I and II), 3-5 April 1989, Kampala; United Nations Industrial Development Organization, Industrial Cooperation through the Southern African Development Coordination Conference (SADCC), UNIDO/15.570, 15 October 1985.

(iv) enable an economy to conserve scarce capital while at the same time absorbing surplus labour;

(v) use simple technology as is evident from many of the backyard workshops;

(vi) make greater use of local resources both human and material in their operations;

(vii) provide great opportunity for self-employment of entrepreneurs;

(viii) contribute to a more equitable distribution of income and wealth;

(ix) be cradles for the emergence of artisans that eventually move into large-scale enterprises in the formal sector.

9. Small-scale enterprises, as examples in the SADCC countries will attest, are a very important component in the realization of most of what is stated above, particularly since they relate closely to government formulated national macro-economic policies. If for no other reason therefore, governments should continue to design ways and means to promote them with a view to ensuring their better productivity and thereby enabling them to contribute to economic growth in the respective economies. Supportive measures intended to facilitate the emergence of small-scale enterprises are needed and those that have been attempted should be reinforced. It is some of these measures that led to the emergence of the Botswana Enterprises Development Unit (BEDU), the Small Enterprises Development Company of Swaziland (BEDCO), the Small Industry Development Organization (SIDO) in Zambia.

10. It is therefore evident that SSEs offer great opportunities for the growth of industries based on indigenously developed skills and local initiatives. Properly nurtured, they could be an important base for adaptation of varied technologies in the SADCC countries needed to meet the challenges of balanced economic growth and development.

(b) Evolution and Development of Savings Banks

11. The largest number of banks in Africa, apart from the respective Central Banks tend to be commercial in character. Their sole purpose is providing short-term credit to trade and industry. An underlying theory regarding the operation of commercial banks based on the belief that "credit should be self-liquidating". However, the operations of these institutions is somehow restricted by their charters. Hence the observed reluctance of most of them not to finance fixed capital formation for fear of locking up their

funds, contrary to the tenets or assumed "golden rule" of sound commercial banking. Such action is also feared because of the danger of seducing borrowers' interest in their enterprises' prosperity. The analysis will of necessity draw a number of lessons on how savings banks in the SADCC area could help or contribute to transformation, through their supporting small-scale enterprises.

12. It is important to mention the fact that a majority of savings banks in Africa, including post office banks have been established as public utilities through legislation, usually by acts of parliament or by decree in States under military rule. Secondly, many a savings banks, apart from Post Office Savings Banks that rarely extend credit, suffer from severe liquidity problems, due partly to low cash resource inflow and decreasing time deposits. On top of all this certain savings banks suffer from institutional and operational problems brought on by internal inefficiencies, weak management, inadequate staffing and at times by the repercussion of problems that have emanated from the sectors they try to service.

13. Botswana is perhaps not atypical in the case of some of these problems. However, it has a number of lessons for other SADCC countries. A head count in a World Bank report revealed that the Botswana Commercial Bank (BCB) structure operated through about 35 branch banks, 53 agencies and 5 encashment points in providing financial assistance to small-scale entrepreneurs. In other words BCB provided full and partial services to a total of 93 locations throughout the country 5/.

14. Other Botswana financial institutions include the Financial Service Company (Pty) Limited (FSC), the Botswana Cooperative Bank (NCB) and the Tswelelo (Pty) Limited engage in long-term and medium-term financing of the country's production sector. The FSC is a subsidiary of the Botswana Development Bank (BDC) and the National Development Corporation, together with Tswelelo a private company provide a package of financial assistance to small-scale Botswana entrepreneurs. Tswelelo unlike the other two concentrates on providing financial assistance to indigenous entrepreneurs. Tswelelo also provides technical assistance in the form of project appraisal and supervision of operations. To a large extent assistance provided to SSEs through these institutions has proved very helpful to most small-scale enterprises. The Botswana Savings Bank (BSB) on the other hand, operates through its local post office system with over 70 locations. Contrary to earlier apprehensions regarding the ineffectiveness of Post Office Savings Banks in general, the BSB has more than proved to be an important

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5/ IBRD, Botswana: Financial Policies for Diversified Growth, Report No. 7690-BT, August 1989, pp.13-16 and p. 103.

savings mobilizer, specially in the rural areas introducing a variety of saving instruments that attracted different types of savers.

15. Another illustrative SADCC country is Malawi with the emergence of the Small-Enterprises Organization of Malawi (SEDOM), specializing in lending and providing technical assistance to small-scale Malawian industries. In addition mention should be made of the Development of Malawian Traders Trust (DEMATT) which was created to help upcoming traders. Malawi, in common with the other SADCC countries, has a Postal Savings Bank (POSB) that operates through 237 post offices, postal agents and market agencies. Savings mobilized have been invested in Government Bonds, an act that perhaps ultimately increased credit liquidity at the disposal of the State but not necessarily of direct and immediate benefit to SSEs.

16. The above few illustrative examples regarding the development of savings banks are developed further in Chapter Three. Empirical research on financial deepening in the SADCC region is no different from the rest of Africa. The availability of savings banks has had some positive effects on certain SSEs and vice-versa although their number is relatively inadequate, given the envisaged future demand for their services. The exact extent to which savings banks have been instrumental in support of SSEs will need to take into account other factors. Nonetheless, to enhance the development of an economy, it will be necessary for savings banks to play their role of mobilizing savings and channelling those resources into areas where investment demand exceeds their own savings, which is the case for most small-scale enterprises in the subregion.

PART II. DEVELOPMENT OF SAVINGS/CREDIT MECHANISMS

17. The evolution of formal savings and credit mechanisms in the SADCC region is largely at the initiative of respective governments. Initiatives at government level include the creation of registered cooperatives as government supported mechanisms. Some of them were put in place in order to speed up indigenization, and to alleviate disparity between SSEs operating in the urban as opposed to those in rural areas. However, the scarcity of credit and difficulties of capital formation led to the emergence of non-governmental efforts that have sustained many small-scale enterprises in the informal sector found both in the urban and rural areas. This chapter therefore reviews examples of general initiatives at national level, specially private ones.

18. Some of the difficulties in this area can be traced back to the way certain government initiatives operate, especially in the rural areas. It is some of these rigidities that prevents them from becoming effective or catalytic in either spurring and/or sustaining small-scale enterprises. Evidence brought out through

empirical research shows that mobilization of savings intended to support small-scale enterprises has been rendered meaningless, since the savings were not transformed into credits that could have enabled borrowers to increase their productivity.

19. In a study entitled: "Domestic and foreign resource mobilization including foreign direct investment for development financing", ECA came to the conclusion based on a great many African countries it had examined, that a substantial number of small-scale enterprises depend on family savings and relatively less, on other forms of funding 6/.

20. Other ECA studies also identified several external and internal factors, apart from capital scarcity in the formal financial sector that keep small-scale enterprises away from availing themselves of the facilities provided by savings banks. Internal factors peculiar to small-scale enterprises are also quite fundamental and must be addressed. In many instances, small-scale enterprises see themselves disadvantaged and therefore reluctant to approach formal financial institutions for credit. Disadvantages faced by SSEs include the need for collateral.

21. It is partly against this background that many SSEs have come to rely on themselves or on non-formal credit mechanisms leading to the emergence of mutual financing schemes. These mutual financing schemes have proved useful in other parts of the world like Korea, India and Bangladesh. The Korean example is perhaps most fascinating where each household contributed a cup full of rice each day to the general pool. This activity was so successful in sustaining credit that it eventually gave credit to the State. The same was true in Germany after the Second World War where craftsmen and cooperative savings movements through Raiffeisenkassen and Volksbanken were able to generate capital to finance needed investment. Africa has had its own success stories in the form of Rotating Savings and Credit Associations (ROSCAs) and "Tontines".

22. For a long time now, African arrangements like Tontines have gained recognition as effective mechanisms in the mobilization of informal savings. Tontines are a form of ROSCA that derive for their continued strength on members' borrowing from one another through a pooling system. The fundamental objective is raising savings and creating credit from small and poor people to entrepreneurs within their own society. The arrangement allows some members to at least finance not only small-scale enterprises but also relatively large expenditures sooner than if the latter had relied on their own savings. The ROSCA approach has many advan-

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6/ ECA, Domestic and foreign resource mobilization including foreign direct investment for development financing, E/ECA/TRADE/90/8.

tages. First, it nurtures among SSEs, the habit of saving. Second, the more successful are its operations, the more confidence of self-reliance it creates in the SSEs. Third, success of these operations enables governments in the respective countries to direct efforts of their financial institutions to other areas that for one reason or another are unable to be self-sustaining.

23. Successful ROSCAs as in the case of Zimbabwe, have evolved into formal financial institutions. This is a direction that one would like to see take root in the other SADCC countries. However, it would be unrealistic to expect an exact replication of the Zimbabwean experience in all SADCC countries. But that should not prevent government assistance in these countries to be taken towards achieving a similar objective. Governments where these ROSCAs have never existed will need to provide "seed-money". After all, the creation of registered cooperative societies has objectives similar to what ROSCAs try to achieve. This aspect receives greater attention because it represents finding solutions to Africa's problems in this area internally. It also vindicates the author's observation elsewhere that "the difficulty is not one of choice of priorities, but rather how to give effect to them on the basis of endogenously mobilized resources" 7/.

24. Contradictions observed regarding certain credit policies as adopted by many African monetary authorities are what need minimizing or better still, should be eliminated. The tendency to control credit policies and, financing only a few sectors can no longer be justified, especially where small-scale enterprises tend to be neglected in the process. Governments should not have to wait for non-establishment initiatives before taking up the challenge of creating conducive savings environments in support of small-scale enterprises.

PART III. EXPERIENCE WITH DOMESTIC FINANCIAL MOBILIZATION IN SUPPORT OF SSEs

25. In the countries of the SADCC region like in the rest of Africa, sustaining economic growth and development requires that all sectors of the economy are able to contribute in equal measure. To a large extent this will depend on each country's ability to identify available local resources (material and human). Furthermore, the ability to utilize such resources optimally in the production of goods and services with a view to improving the quality of life of the people.

7/ See Jonathan H. Chileshe, Nothing Wrong with Africa, Except ..., (2nd Edition) Vikas Publishing House Pvt. Ltd., New Delhi, 1992, pp. 300-302.

26. The difficulty of access to capital and/or finance will be a major constraining factor for most small-scale enterprises given these countries many preoccupations. Financing of small-scale enterprises as briefly described has been fraught with many problems. These problems have been much more acute for SSEs in the informal sector. These difficulties have combined to incapacitate SSEs from expanding their activities and prevented them from creating much needed employment opportunities and similarly denied them the opportunity to meaningfully contribute to the development of indigenous entrepreneurship. Artisans and some of their activities that would have graduated from the informal into the formal sector may have been prevented from doing so for the same reasons.

27. What has been or should be done to rectify the situation in support of SSEs is at the root of the analysis in this Chapter.

28. A review of several studies including by Nsereko to a "Workshop on Development of Entrepreneurial Capability for Cottage and small-scale industries" 8/ seem to stress the need for appropriate action geared towards a mutually supporting effort between the two. As stated earlier, difficulties encountered by SSEs, especially in the informal sector with regard to raising capital from established financial institutions, were partly responsible for forcing most of them to resort to non-formal institutional sources of finance. These sources fall into about 4 or 5 categories: (a) own capital; (b) commodity credit; (c) re-investment of profits; (d) borrowing from private lenders; and (e) creation of cooperatives or Rotating Savings and Credit Associations (ROSCAs) at village or large market levels. The most studied of late are the Tontines in Cameroon and Niger. In the SADCC region the success story of the one in Zimbabwe has caught greater limelight.

29. Access to non-formal institutional finance of the type listed above by SSEs can be summarised as follows:

(a) Use of own capital implies an entrepreneur relying solely on his or her own savings. For some other SSEs it includes borrowing from relatives or relying on inheritance. Naturally, the activity tends to be rather restricted;

(b) Commodity credit is a practice where large wholesalers and/or importers supply commodities to small-scale operators. This type of an entrepreneur is an indirect

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8/ See Joseph Nsereko, "The role of Financing and other support institutions in the development of Cottage and Small-scale Industries in Africa", doc. ECA/IHSD/SSI/012/91.

employee of the supplier and claim to be his or her own manager is greatly suspected in practice.

(c) Investment profit involves the entrepreneur choosing to live very humbly and denying himself or herself most necessities in order to increase his or her savings for reinvestment in the enterprise at a future date;

(d) Borrowing from private money lenders is unavoidable in countries of high inflation and where resort to formal financial institutions that are themselves inadequately funded. Not only are the interest charges rather high but then small-scale enterprises may have no other alternative but to turn to those money sharks.

(e) Tontines these are mostly at village and large market levels. They are based on personal relations and rarely appeal to solidarity since the Tontine itself is of necessity based on solidarity.

30. There are other aspects that need considering in discussing the support of savings banks to small-scale enterprises. Indeed, scarcity of capital and the difficulty of access from the established financial institutions have stood in their way as clearly stated earlier. However, it is also quite apparent in a number of cases that even where such capital is available or access is made relatively easy, entrepreneurs of SSEs have been found wanting among others, in terms of absorptive capacity.

31. This then leads us to an examination of the next important issue. The experience gained from certain successful cooperatives and the way they reach a greater number of their members at reasonable cost is a case in point. Therefore it is important to consider ways of reducing costs in order that benefits to the beneficiaries become greater and not minimized. How may we ask have the experiments of BEDU in Botswana or SIDO in Zambia faired in terms of cost minimization in the interest of their beneficiaries? Absorptive capacity and greater use of such credit to succeed requires the development of complimentary institutions, other functional infrastructures such as road networks, police posts, dependable postal systems and currency centres as well as technical backstopping. These elements combine to increase the absorptive capacity of small-scale enterprises for credit eventually made available to them through savings banks.

32. Among the tried experiments in support of small-scale enterprises as earlier stated include the establishment of the Botswana Enterprises Unit (BEDU). A mechanism that the Botswana Government put in place to encourage local industries and entrepre-

neurs owned and managed by its nationals 9/. Similarly in Zambia (Small-scale Industry Development Organization (SIDO), in Swaziland (Small Enterprises Development Company (SEDCO) to mention but a few within the SADCC region. These actions simply confirm what was known for a long time that Africa did not lack its own entrepreneurial zeal neither in the pre-colonial nor the colonial eras as manifest in the activities of Fulanis in most of West Africa, Ekwenus of Ghana, Gurages of Ethiopia etc. 10/. Recent additions to the list is the emergence of tontines, merely confirms an in-built African business acumen. Arthur Lewis also wrote of this in one of his analyses of African economies: "he found no lack of small scale enterprises or of willingness to exploit opportunities. The will to do business and make money (showed) up on the hordes of traders; and in the rapidity with which small entrepreneurs (took) up small business opportunities as soon as the opportunities (were) opened up" 11/.

33. It is logical under these circumstances to assume that the creation of institutions capable not only of mobilizing savings but also capable of extending credit to small-scale enterprises would considerably contribute to balanced economic growth and development of most SADCC countries.

PART IV. STRENGTHENING SUPPORT TO SMALL-SCALE ENTERPRISES

34. The analysis in the foregoing chapters provides a fairly good background against which to base desired measures. As we conclude, it is perhaps important to stress once again that difficulties of access to capital and credit will be a major preoccupation of savings banks if they are to support the promotion and development of small-scale enterprises. However, this is not the only crucial factor. This is in spite of the fact that many of the difficulties faced by small-scale enterprises in the SADCC countries with regard to access to credit are partly addressed in the discussion covering the establishment of such mechanism as BEDU, SIDO, BEDCO etc.

35. Equally important also is the creation of small-scale enterprises culture that cannot depend solely on efforts of Governments. The emergence of tontines shows clearly that it cannot come about through the mechanisms of SIDO, BEDU or State entrepreneurship. Neither can the creation of small-scale

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9/see Jonathan H. Chileshe, op.cit., p.128

10/ See Jonathan H. Chileshe, The Challenge of Developing Intra-African Trade, East African Literature Bureau, Nairobi, 1977.

11/Arthur W. Lewis, Development Planning: The essentials of Economic Planning, Harper & Row, New York, 1986.

enterprises culture be predicated primarily on foreign investment. What emerges therefore is the significance of savings banks both formal and informal and their role in mobilizing as well as extending credit to be catalytic in the process. This process will above all require the involvement of the people at the Centre.

36. Needless to say and experience has conclusively shown that governments have a specific responsibilities in this area. They must create an enabling environment in which small-scale enterprises can grow as well as optimally utilize available credit provided by the savings banks. It is also important to point out that neither of these activities can take place in the absence of an enabling environment. Hence, liberalization of licences intended to facilitate the setting up of small-scale enterprises or granting loans or credit on favourable terms in the absence of such an environment would fail to achieve the principal objective. In other words, governments should go beyond clearly enunciating national policies relating to the growth of small-scale enterprises.

37. The experience of Tontines or Rotating Savings and Credit Associations and other successful informal credit arrangements should form integral building blocks in any future course of action on mobilization and utilization of domestic credit incorporating savings banks. Perhaps SADCC countries could take a leaf or two from the experience of the Citizens Bank of Korea that was born out of savings cooperatives.

38. Other proposals for appropriate catalytic measures should take into account the roles played so far, by different factors and situations. The biggest challenge in solving a number of the difficulties faced by small-scale enterprises apart from the expected contribution from savings banks, rests with the small-scale enterprises themselves. Some among them have already shown unmistakenly that even as a poor and disadvantaged group, they are able to organise themselves in self-help mutual benefit groups to harness enormous untapped savings potential in their midst.

39. All said and done, self-reliance by SSEs does not imply a "hands-off" attitude by governments. This is why governments should help and put in place advisory services and technical assistance along with beefing-up credit to small-scale enterprises. To render advisory services effective to SSEs necessitates decentralizing offices to all areas of the country. In other words, to ensure easy access at minimal cost materially and in time. Last but not least, for most small-scale enterprises to increase productivity even with better mix of most of the factors briefly analyzed in this paper, it must be realized that working long hours will not be the answer in the absence of access to credit and capital.